



ECOSYSTEMS: BEHIND THE BUZZ

Ecosystem

/ˈiːkəʊsɪstəm/

noun

a complex network of interconnected businesses and systems that enable a Principal to provide customer offerings and create value through adjacency.

THE ANATOMY OF A THIRD PARTY ECOSYSTEM

Third Party Ecosystems are increasingly referenced and discussed in the business press, management thinking and Boardroom conversations. However, there is a lack of consensus as to what sits behind the buzzword. The Ecosystem model (set out below) tries to cut through the noise and provide a clear and concise breakdown of an ecosystem and its constituent parts.

A Third Party Ecosystem describes the network of interconnected businesses and systems that deliver customer value, however it is worth also considering the tiers of third party and understanding the key roles that different types of third parties play.

The approach is particularly useful to help organisations with larger third party portfolios to take a more holistic approach when thinking about strategy execution, resource allocation and third party relationship management.

[Please click here to access definitions for the terms in bold](#)

All the participants within this border are within the Principal's Ecosystem. That is, to one degree or another, within the **Principal's** control.

Market Architects are external bodies that determine the environment (rules, standards and constraints) in which the Ecosystem operates.

Ecosystems start with a **Principal** as the foundational owner of the **Customer** and third party **Platform** necessary for adjacent transactions.

Ecosystems are always subject to other factors in the broader external environment. Whilst the likes of disruptors, competitors and bad actors are outside of control, the **Principal** must always be cognisant of these factors - constantly reshaping and adapting the Ecosystem

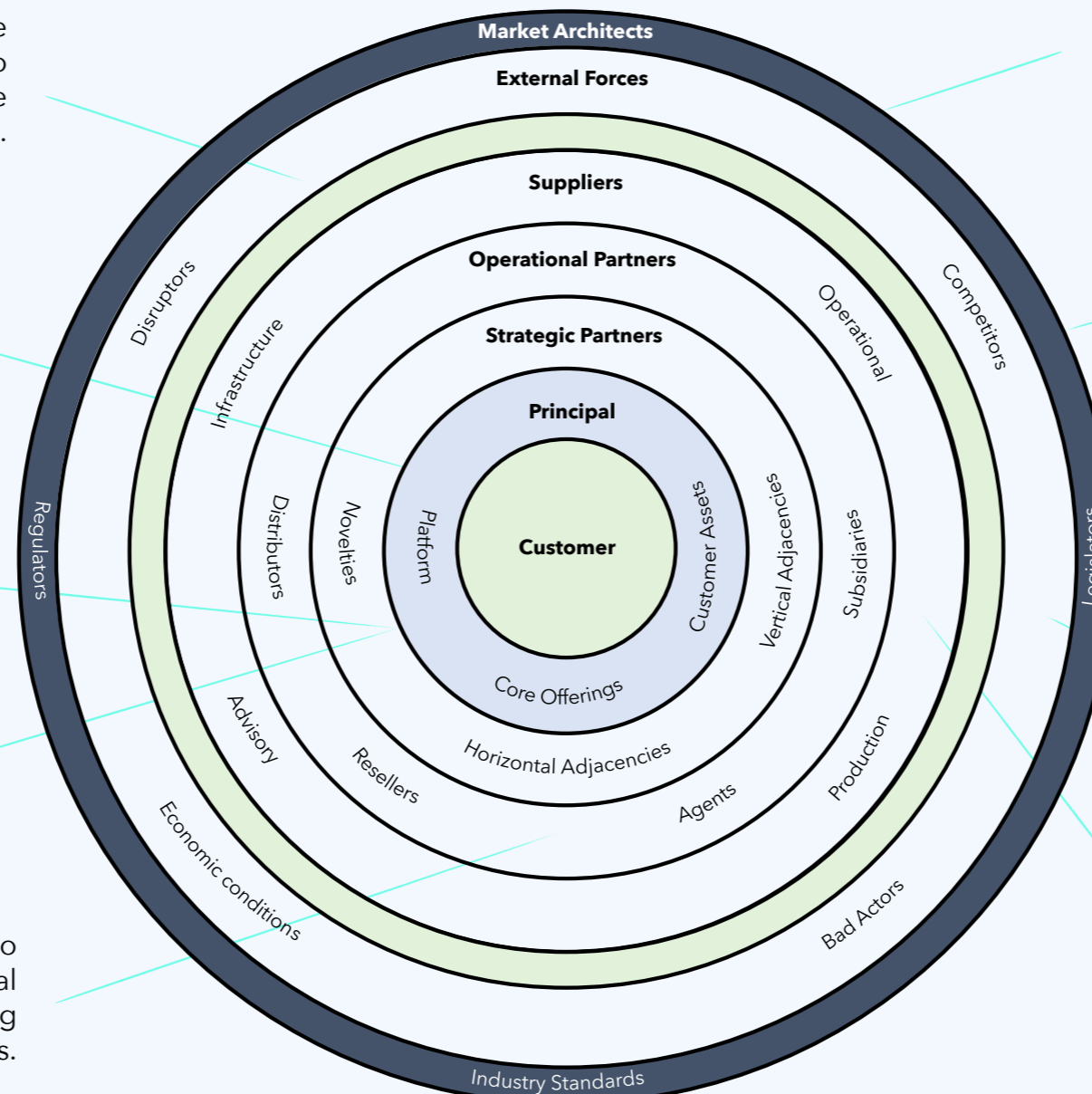
Strategic Partners represent the most important third parties within the Ecosystem, their role is to create new revenue from existing customers, through the **Principal's** platform.

There are three key types of Strategic Partner, defined by the *type of customer value* offered: **horizontal**, **vertical** or **novel**.

Ecosystems always exist as part of a broader **environment**. Generally speaking, a **Principal** can exercise varied control over its **Ecosystem**, but may only be able to influence and adapt to its broader **environment**.

Operational Partners are key to supply and support the Principal generate revenue from existing offerings, or other owned assets.

Suppliers are integral to a **Principal's** ability to deliver **Customer** value, however they are distinguished in that they *support* the Principal deliver value, but do not directly *create* revenue.



ECOSYSTEMS EXPLAINED

Ecosystem
/ˈiːkəʊsɪstəm/
noun

a complex network of interconnected businesses and systems that enable a Principal to provide customer offerings and create value through adjacency.

The Ecosystem Opportunity

In markets with increasing saturation and the spectre of disruption looming universally, profits are under pressure and customer volatility is on the rise.

Organisations need to create new value without breaking the bank or disrupting operations.

Ecosystems offer a unique opportunity for Principals to create new value through commissions on third party customer transactions (**Type 1 Ecosystems**), and, enhance operations through a more strategic approach to third party management and data liberation (**Type 2 Ecosystems**).

Taking a holistic view of a Principal's third parties, Ecosystems provide a structured way to manage third parties based on their role, delivered value and the Principal's level of control.

This marks an important divergence from traditional organisational design, where accountability is delineated between buy and sell side third parties: frequently resulting in different (if not conflicting) management approaches, resource allocation and strategies towards buy or sell side third parties.

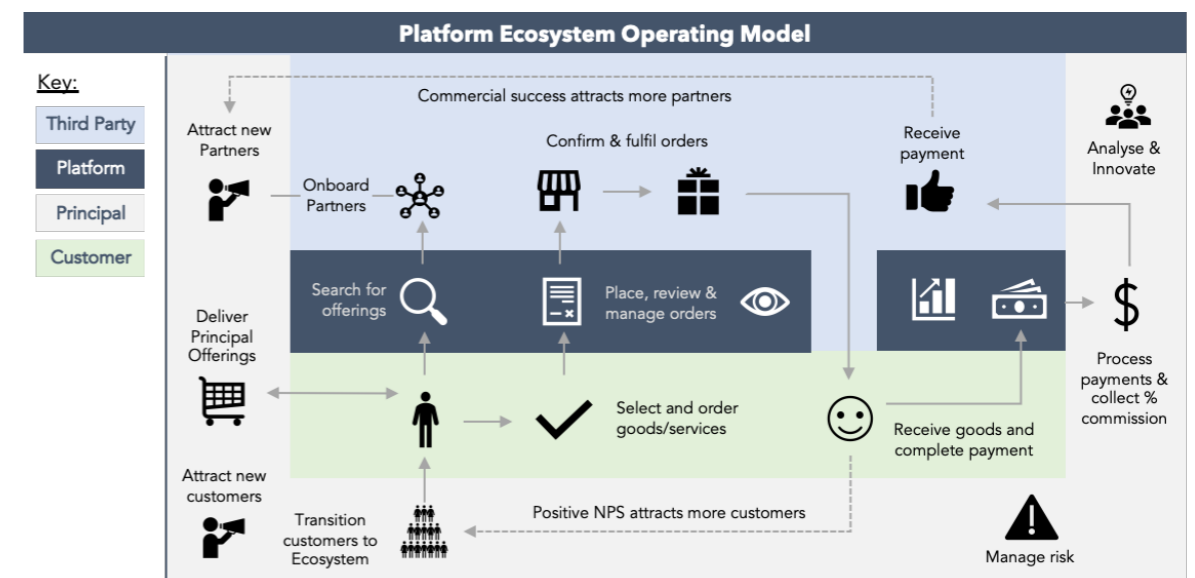
Fundamentally, Ecosystems allow management to see both the woods *and* the trees: enabling better decision making and a fuller appreciation of the separation between accountability and control in relation third parties.

Type 1: Platform Ecosystems

Ecosystems come in many different forms, however, the future of digital collaboration lies in Ecosystem Platforms that connect Customers to **adjacent third parties** throughout the Ecosystem.

The diagram below provides a basic operating model for digital Ecosystems. The **Platform Layer** enables seamless integration between Principal, Customer, Third Party and a clear source of new revenue in the form of commissions and customer payments.

Delivering new revenue for Partners and improved experiences for Customers, the Ecosystem becomes self-reinforcing - driving increased customer traffic and Partners to the Principal.



ECOSYSTEMS

EXPLAINED CONT.

Type 2: Data-led Ecosystem

In 2017, The Economist proclaimed that data - not oil - was the world's most valuable resource. This may go some way to explaining why many organisations are loathed to share it.

Ironically, however, as a result of a lack of internal co-ordination, antiquated systems and (perhaps most of all) fear of a data incident, many organisations are sitting on piles of data that they either *can't* use, or don't know how to use.

Ecosystems, however, require Principals to reject this status quo and *liberate* data across the Ecosystem.

Data sharing can play an enormous role in generating efficiencies and innovations throughout an Ecosystem, and the upside can be

mutually beneficial (see 'Value through data liberation' opposite).

If trust is the currency of data, Principals must first establish the necessary security infrastructure and sharing protocols across each ring of the Ecosystem.

Thereafter, through third party integration with realtime data streams, Principals can begin to unlock value and opportunities in operational and financial datasets.

Data liberation across Ecosystems represents stark divergence from traditional thinking. Whilst it may be initially confronting, if Principals architect Ecosystems with the right incentives and controls, there are powerful opportunities to be seized.

ADJACENCIES IN ACTION

Many organisations, like those set out below, are already using an Ecosystem Platform strategy to drive new revenue and improve customer experience through third party **Adjacencies**.

Vertical Adjacency



Up-sellers

- Qantas**
- Hotels
 - Hire Cars
 - Uber

- Uber**
- Luxury cars
 - UberEats

Horizontal Adjacency



Aggregators

- Amazon**
- Books
 - Electronics
 - Toys

- Booking.com**
- Hotels
 - City-breaks
 - Cruises

Novel Adjacency



Market Makers

- Mall of America:** Theme park in shopping centres
- Medibank:** Discounts on pregnancy & recovery wear

Up-sellers and aggregators frequently provide both roles to customers

VALUE THROUGH DATA LIBERATION

Whilst far from common, more Principals are sharing key datasets with third parties throughout the Ecosystem, opening the door to innovation and operational efficiencies.

Retailers & Logistics companies have long shared order management and logistics data, frequently offering direct integrations to Principal front-end apps to allow customers to track their orders in real time.

Rolls Royce collects massive amounts of data from its aircraft engines. Early detection of faults in-flight allows engineers to be called out and on-site before the plane has landed at its destination, allowing quick resolution and more hours in the air.

An **energy company** shared anonymised customer usage data with part of its Ecosystem. One of its partners designed an algorithm that detected abnormal customer behaviour, prompting the Principal to call proactively call vulnerable customers to make sure they were ok.

KEY CONCEPTS

Adjacency: refers to a Horizontal, Vertical or Novel Adjacency:

Vertical Adjacency: a third party offering which satisfies a customer job that generally comes before or after an organisation offering.

Example: A car insurance provider has a vertical adjacency with a car retailer, as customers purchase car insurance after they have purchased a car.

Horizontal Adjacency: a third party offering that enhances or extends an organisation offering's coverage of a customer job.

Example: A restaurant may have a horizontal adjacency with a vineyard, enhancing and extending its offering through the addition of specialty wine over dinner.

Novel Adjacency: a third party offering that a Principal's Customers may find attractive or influence customer perception, despite there being little or no connection to Principal's offerings.

Example: An airline may have a novel adjacency with an environmental charity, potentially improving customer perception and attracting environmentally minded customers, despite the charity being a tangential (and potentially contradictory) offering.

Customer: a buyer of goods and/or services, that is aligned to a Principal through choice and/or commitment.

Ecosystem: a complex network of interconnected businesses and systems that enable a Principal to provide Customer Offerings and create value through Adjacency.

Environment: the Environment reflects everything outside of an organisation's Ecosystem. Whilst some organisations have influence, the broader Environment is outside of the Principal's control.

Market Architect: are external bodies that determine the environment (rules, standards and constraints) in which the Ecosystem operates.

Offerings: are goods and/or services offered for sale to customers.

Operational Partner: a Third Party that involved in revenue generated and/or customer facing activities on behalf of the Principal, through means other than a Platform Adjacency.

Platform / Platform Layer: technology infrastructure that provides a digital interface for Customers, Principals and Third Parties to engage and transact.

Principal: The owner of the Customer and Platform that are necessary for the existence of an Ecosystem.

Supplier: a Third Party that provides goods and/or services to a Principal in order to operate or enhance its business.

Strategic Partner: a key Third Party that a Principal has onboarded to its platform for the purposes of providing an adjacent offering to its Customers.

About

THREECOSYSTEMS

A third party Ecosystem represents the interdependent network of suppliers, strategic partners and other third parties through which an organisation can create, deliver and realise customer value.

In a digital future, all organisations will be a part of an Ecosystem, but only some will lead.

Other ebooks in this series:

- Ecosystem readiness: a self assessment
- The currency of trust in Ecosystems and data
- Managing risk, commercial and relationship management in Ecosystems
- Ecosystem architecture: a blueprint for construction

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Many organisations and professionals are well equipped and experienced in engaging and managing Third Parties using conventional means.

Whilst some leaders recognise the potential value in Ecosystems, the complexities of designing, operating and assuring these models are less well known.

Constraints imposed by legacy technology, organisational design and gaps between accountability and control represent some of the key barriers to entering and maximising value from an Ecosystem.

Our mission is to help organisations architect, implement and realise value from Third Party Ecosystems through sharing our latest thinking, in briefs like this, and bringing industry leaders together to exchange ideas and new ways of working, at our threecosystems community meetups.

Please get in touch, or visit our website to join the conversation.



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